

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Trenton, Michigan</u>	County Wayne
Audit Date June 30, 2004	Opinion Date October 15, 2004	Date Accountant Report Submitted To State: December 29, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Hwy.	City Southfield	State MI	ZIP 48034
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Trenton, Michigan**

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## **Financial Report with Supplemental Information June 30, 2004**

# City of Trenton, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Trenton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, Michigan (the "City") as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Trenton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule of the General Fund, and the pension system schedule of funding progress and employer contributions identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and  
Members of City Council  
City of Trenton, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Trenton, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004 on our consideration of the City of Trenton, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

October 15, 2004

# City of Trenton, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Trenton, Michigan's (the "City") financial performance provide an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- The City fell just short of attaining its \$19,346,180 amended revenue budget by \$61,426 in spite of a \$216,000 cut in our second largest revenue source, state-shared revenue, and less than anticipated interest income. Charges for services, licenses and permits, and other income were able to offset these losses. Combined with fiscal constraint and continued health care modifications, expense savings resulted in an approximately \$809,000 increase in the General Fund's fund balance.
- Total net assets related to the City's governmental activities increased by approximately \$915,000. Total net assets, governmental and business-type combined, increased by approximately \$1,640,000.
- The City continued its long-term investment in the sewer infrastructure and the downtown area by issuing \$1,990,000 of State Revolving Fund General Obligation Limited Tax Bonds, and \$920,000 of general obligation bonds for the Downtown Development Authority. In addition, \$1,800,000 of Building Authority Bonds were issued to refurbish the Teifer Arena at the Kennedy Recreation Center.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Trenton, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004 and 2003 (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Assets</b>						
Current assets	\$ 18,082	\$ 18,138	\$ 2,557	\$ 3,031	\$ 20,639	\$ 21,169
Noncurrent assets	16,475	16,337	70,181	68,051	86,656	84,388
Total assets	34,557	34,475	72,738	71,082	107,295	105,557
<b>Liabilities</b>						
Current liabilities	3,227	3,493	3,634	4,419	6,861	7,912
Long-term liabilities	4,533	5,100	49,465	47,748	53,998	52,848
Total liabilities	7,760	8,593	53,099	52,167	60,859	60,760
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	13,246	12,561	13,557	11,671	26,803	24,232
Restricted	1,447	1,409	3,219	4,453	4,666	5,862
Unrestricted	12,104	11,912	2,863	2,791	14,967	14,703
Total net assets	<u>\$ 26,797</u>	<u>\$ 25,882</u>	<u>\$ 19,639</u>	<u>\$ 18,915</u>	<u>\$ 46,436</u>	<u>\$ 44,797</u>

The City's combined net assets increased a modest 4 percent from a year ago, increasing from \$44,797,000 to \$46,437,000. Both governmental and business-type activities experienced similarly sized increases (\$915,000 and \$725,000 in governmental activities and business-type activities, respectively).

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by approximately \$192,000 for governmental activities. This represents an increase of 1.6 percent. This is primarily attributed to cost reductions and personnel consolidations that took place during the fiscal year.



# City of Trenton, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2004 and 2003 (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 2,496	\$ 2,376	\$ 6,865	\$ 7,422	\$ 9,361	\$ 9,798
Operating grants and contributions	1,391	1,170	-	-	1,391	1,170
Capital grants and contributions	33	132	600	356	633	488
General revenue:						
Property taxes	15,001	15,135	1,924	1,690	16,925	16,825
State-shared revenue	2,319	2,532	-	-	2,319	2,532
Unrestricted investment earnings	236	310	30	63	265	373
Transfers and other revenue (expense)	(298)	(222)	266	144	(32)	(78)
Total revenue	21,178	21,433	9,685	9,675	30,863	31,108
<b>Program Expenses</b>						
General government	4,073	4,282	-	-	4,073	4,282
Public safety	8,936	6,820	-	-	8,936	6,820
Public works	4,993	4,715	-	-	4,993	4,715
Health and welfare	600	-	-	-	600	-
Community and economic development	526	424	-	-	526	424
Recreation and culture	768	1,234	-	-	768	1,234
Special projects	216	706	-	-	216	706
Interest on long-term debt	151	185	-	-	151	185
Enterprise	-	-	8,962	7,813	8,962	7,813
Total program expenses	20,263	18,366	8,962	7,813	29,225	26,179
<b>Change in Net Assets</b>	<b>\$ 915</b>	<b>\$ 3,067</b>	<b>\$ 723</b>	<b>\$ 1,862</b>	<b>\$ 1,638</b>	<b>\$ 4,929</b>

### Governmental Activities

The City's total governmental revenues decreased approximately \$254,000 from the previous year. Increased transfers to other funds related to health care costs, reduced interest rates, and continued decreases in state-shared revenue were the main causes for this reduction. The City continues to closely monitor spending in health care and prescription drug costs. Also, a change in dental insurance carriers resulted in a further reduction of current year expenses.

# City of Trenton, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Kennedy Recreation Center. Water is provided to residents from the Detroit Water System. Sewage treatment is provided through a City-owned and operated sewage treatment plant. In 2003-2004, a slow-down in the local economy saw a tightening of industrial usage resulting in a 25 percent reduction in water sales through the first eight months of the fiscal year. Spring consumption improved, resulting in an overall decrease of approximately 20 percent in volume sales in the system. Breaks in old water mains caused water loss to increase from 7 percent to 14 percent. In spite of these two factors, the water and sewer system was able to limit expenditures and control operating costs to maintain cash flow from operations. The City is averaging the replacement of one water main a year through the rate structure. The radio read system approved by council in 2003 is being installed by staff to save money. To date, approximately 50 percent of the project is complete with over 4,300 installations.

Depreciation expense on the Kennedy Recreation Center's \$10 million of capital improvements has increased total operating expenses. However, it is anticipated the 2004 infrastructure improvements at Kennedy's Teifer Arena will not only reduce operating expenses but enhance revenue opportunities. In the future, the City may look at restructuring Kennedy's debt to take advantage of favorable interest rates.

### The City's Funds

Analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The City's major funds for 2003-2004 include the General Fund, Kennedy Recreation Center, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant is public safety, which incurred expenses of approximately \$8,223,000, or 44.5 percent of total governmental activities in 2004. Public works would be next at \$3,217,000, or 17.4 percent of total governmental activities. These services are almost solely supported by property taxes.

### General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. Fund balance increased this year by \$808,880 mainly for two reasons. First, continued savings from less than anticipated expenses in the City's self-insurance program and second, the restructuring of positions has allowed for savings in the public works and municipal facility maintenance departments. Building activity remained strong this year, adding more condominium projects like Rolling Ridge and Tefend Woods. The City overall spent approximately \$870,000 below budgeted amounts. This allowed the General Fund balance to increase from \$8,714,099 to \$9,522,979 at June 30, 2004.

# **City of Trenton, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

At the end of the 2004 fiscal year, the City had approximately \$81.8 million invested in a broad range of capital assets, including buildings, police and fire equipment, water and sewer lines, and the Kennedy Arena. In addition, the City has bonded to date approximately \$42 million for sewer rehabilitation within the City. The City is continuing to invest in a new remote metering system that will continue to reduce water loss, shorten billing time, and eliminate human error. It is anticipated these projects will be completed in 2006.

### **Economic Factors and Next Year's Budgets and Rates**

The City was able once again to maintain the millage at 21 mills for 2003-2004. This was accomplished again through personnel attrition and one-time revenue items incorporated into the budget. As stated in last year's discussion, because of the limits of Proposal A, the City will need to monitor the budget very closely. The State-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result is the total taxable value for the City growing less than inflation, before considering new property additions. With approximately 56 percent of the City's revenues derived from property taxes, we will continue to monitor this closely.

With the anticipated completion of the sewer system in the near future, attention will not only need to focus on the operation and maintenance of the system, but how to fund other sewer projects which did not qualify for state revolving funds. The operation and maintenance plan is due for approval in early 2005.

The 2004-2005 budget required \$600,000 of the City's fund balance to balance the General Fund's activity. The City will continue to search for alternative sources of new revenue as well as cost reductions to balance future budgets.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the controller's office.

# City of Trenton, Michigan

## Statement of Net Assets June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 15,619,875	\$ 729,021	\$ 16,348,896	\$ 1,149,033
Receivables:				
Taxes	576,453	69,695	646,148	-
Customers	-	1,680,003	1,680,003	-
Other	156,129	-	156,129	-
Due from other governmental units	532,173	-	532,173	14,026
Inventories	129,319	78,651	207,970	-
Long-term advances and other assets	1,068,116	-	1,068,116	-
Restricted assets (Note 4)	-	5,905,187	5,905,187	598,453
Capital assets - Net (Note 5)	16,475,122	64,276,278	80,751,400	1,131,795
Total assets	34,557,187	72,738,835	107,296,022	2,893,307
<b>Liabilities</b>				
Accounts payable	579,666	513,150	1,092,816	4,184
Accrued and other liabilities	774,434	175,286	949,720	30,000
Due to other governmental units	27,163	-	27,163	1,700
Current liabilities payable from restricted assets (Note 4)	-	1,357,559	1,357,559	464,665
Noncurrent liabilities (Note 7):				
Due within one year	1,845,400	1,588,046	3,433,446	50,000
Due in more than one year	4,533,325	49,465,447	53,998,772	2,340,000
Total liabilities	7,759,988	53,099,488	60,859,476	2,890,549
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	13,246,097	13,556,744	26,802,841	25,000
Restricted:				
Major and local streets	1,184,984	-	1,184,984	-
Community development block grant	18,848	-	18,848	-
Grant	51,316	-	51,316	-
Library	192,194	-	192,194	-
Capital expenditures	-	3,219,181	3,219,181	-
Unrestricted (deficit)	12,103,760	2,863,422	14,967,182	(22,242)
Total net assets	\$ 26,797,199	\$ 19,639,347	\$ 46,436,546	\$ 2,758

# City of Trenton, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 4,073,081	\$ 788,106	\$ 10,496	\$ -
Public safety	8,936,466	778,900	5,830	28,113
Public works	4,992,590	106,515	1,064,994	-
Health and welfare	600,200	-	-	-
Community and economic development	526,331	-	266,429	-
Recreation and culture	768,111	620,113	-	4,800
Special projects	215,885	202,184	43,654	-
Interest on long-term debt	151,152	-	-	-
Total governmental activities	20,263,816	2,495,818	1,391,403	32,913
Business-type activities:				
Water and sewer	6,787,805	5,420,899	-	600,000
Recreation	2,172,985	1,443,953	-	-
Total business-type activities	8,960,790	6,864,852	-	600,000
Total primary government	<u>\$ 29,224,606</u>	<u>\$ 9,360,670</u>	<u>\$ 1,391,403</u>	<u>\$ 632,913</u>
Component units:				
Downtown Development Authority	\$ 816,151	\$ -	\$ -	\$ -
Economic Development Corporation	612	-	-	-
Brownfield Redevelopment Authority	3,349	-	-	-
Total component units	<u>\$ 820,112</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Loss on sale of capital assets				
Miscellaneous income (expense)				
Transfers - Net (Note 6)				
Total general revenues and transfers				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (3,274,479)	\$ -	\$ (3,274,479)	\$ -
(8,123,623)	-	(8,123,623)	-
(3,821,081)	-	(3,821,081)	-
(600,200)	-	(600,200)	-
(259,902)	-	(259,902)	-
(143,198)	-	(143,198)	-
29,953	-	29,953	-
(151,152)	-	(151,152)	-
(16,343,682)	-	(16,343,682)	-
-	(766,906)	(766,906)	-
-	(729,032)	(729,032)	-
-	(1,495,938)	(1,495,938)	-
(16,343,682)	(1,495,938)	(17,839,620)	-
-	-	-	(816,151)
-	-	-	(612)
-	-	-	(3,349)
-	-	-	(820,112)
15,001,151	1,924,270	16,925,421	593,671
2,319,330	-	2,319,330	-
236,572	29,800	266,372	28,686
(17,336)	-	(17,336)	-
(14,263)	-	(14,263)	26,830
(266,348)	266,348	-	-
17,259,106	2,220,418	19,479,524	649,187
915,424	724,480	1,639,904	(170,925)
25,881,775	18,914,867	44,796,642	173,683
<b>\$ 26,797,199</b>	<b>\$ 19,639,347</b>	<b>\$ 46,436,546</b>	<b>\$ 2,758</b>

# City of Trenton, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 8,022,514	\$ 4,531,877	\$ 12,554,391
Receivables:			
Taxes	558,062	18,391	576,453
Other	118,035	38,094	156,129
Due from other governmental units	309,408	222,765	532,173
Inventories	45,316	-	45,316
Long-term advances	995,000	-	995,000
Total assets	<u>\$ 10,048,335</u>	<u>\$ 4,811,127</u>	<u>\$ 14,859,462</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 195,895	\$ 78,596	\$ 274,491
Accrued and other liabilities	302,298	10,628	312,926
Due to other governmental units	27,163	-	27,163
Total liabilities	525,356	89,224	614,580
<b>Fund Balances</b>			
Reserved for:			
Long-term advances	995,000	-	995,000
Inventory	45,316	-	45,316
Unreserved:			
General Fund (Note 1)	8,482,663	-	8,482,663
Special Revenue Funds	-	3,044,770	3,044,770
Capital Projects Fund	-	1,677,133	1,677,133
Total fund balances	9,522,979	4,721,903	14,244,882
Total liabilities and fund balances	<u>\$ 10,048,335</u>	<u>\$ 4,811,127</u>	<u>\$ 14,859,462</u>
<b>Fund Balance - Total Governmental Funds</b>			\$ 14,244,882
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			13,960,846
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(3,703,077)
Compensated absences and uninsured claims are included as a liability in governmental activities			(2,593,419)
Internal Service Funds are included as part of governmental activities			4,887,967
<b>Net Assets of Governmental Activities</b>			<u><b>\$ 26,797,199</b></u>

# City of Trenton, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 14,304,101	\$ 697,050	\$ 15,001,151
Licenses and permits	527,268	-	527,268
Federal grants	-	256,497	256,497
State sources	2,319,330	1,119,861	3,439,191
Charges for services	655,787	-	655,787
Fines and forfeitures	367,232	-	367,232
Interest income	196,301	24,966	221,267
Other	703,723	673,496	1,377,219
Total revenue	19,073,742	2,771,870	21,845,612
<b>Expenditures</b>			
Current:			
General government	3,202,551	-	3,202,551
Public safety	8,223,329	-	8,223,329
Public works	3,216,852	1,190,692	4,407,544
Health and welfare	200	-	200
Recreation and culture	626,361	367,837	994,198
Other	1,346,435	813,649	2,160,084
Capital outlay	-	4,793	4,793
Debt service	227,420	475,691	703,111
Total expenditures	16,843,148	2,852,662	19,695,810
<b>Excess of Revenue Over (Under) Expenditures</b>	2,230,594	(80,792)	2,149,802
<b>Other Financing Sources (Uses)</b>			
Transfers in	211,012	902,372	1,113,384
Transfers out	(1,632,726)	(347,006)	(1,979,732)
Total other financing sources (uses)	(1,421,714)	555,366	(866,348)
<b>Net Change in Fund Balances</b>	808,880	474,574	1,283,454
<b>Fund Balances - Beginning of year</b>	8,714,099	4,247,329	12,961,428
<b>Fund Balances - End of year</b>	<u>\$ 9,522,979</u>	<u>\$ 4,721,903</u>	<u>\$ 14,244,882</u>



# City of Trenton, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,283,454

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	212,997
Expense reported in statement of activities for loss on disposition of assets not reported in governmental funds	(17,336)
Revenue reported in the statement of activities in a previous year that did not provide current financial resources and is reported as revenue in the governmental funds in the year collected	(79,409)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	684,083
Increase in accumulated severance pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	(231,839)
Internal Service Funds are also included as governmental activities	<u>(936,526)</u>

**Change in Net Assets of Governmental Activities** \$ 915,424

# City of Trenton, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2004

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 721,021	\$ 8,000	\$ 729,021	\$ 3,065,484
Receivables:				
Taxes	69,695	-	69,695	-
Customers	1,658,874	21,129	1,680,003	-
Prepaid costs and other assets	-	-	-	73,116
Inventories	75,541	3,110	78,651	84,003
Total current assets	2,525,131	32,239	2,557,370	3,222,603
Noncurrent assets:				
Restricted assets (Note 4)	4,561,340	1,343,847	5,905,187	-
Capital assets (Note 5)	54,475,921	9,800,357	64,276,278	2,514,276
Total noncurrent assets	59,037,261	11,144,204	70,181,465	2,514,276
Total assets	61,562,392	11,176,443	72,738,835	5,736,879
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	257,573	255,577	513,150	305,175
Accrued and other liabilities	47,316	127,970	175,286	461,508
Current liabilities payable from restricted assets (Note 4)	1,342,159	15,400	1,357,559	-
Current portion of long-term debt (Note 7)	1,284,880	303,166	1,588,046	36,870
Total current liabilities	2,931,928	702,113	3,634,041	803,553
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	194,019	2,615	196,634	45,359
Long-term debt - Net of current portion (Note 7)	39,168,813	10,100,000	49,268,813	-
Total noncurrent liabilities	39,362,832	10,102,615	49,465,447	45,359
Total liabilities	42,294,760	10,804,728	53,099,488	848,912
<b>Net Assets</b>				
Investment in capital assets - Net of related debt	13,259,553	297,191	13,556,744	2,514,276
Restricted for capital expenditures	3,219,181	-	3,219,181	-
Unrestricted	2,788,898	74,524	2,863,422	2,373,691
Total net assets	\$ 19,267,632	\$ 371,715	\$ 19,639,347	\$ 4,887,967

# City of Trenton, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
<b>Operating Revenue</b>				
Sale of water	\$ 2,036,345	\$ -	\$ 2,036,345	\$ -
Sewage disposal charges	2,839,078	-	2,839,078	-
Charges for services	-	1,443,953	1,443,953	4,030,126
Other charges	222,212	-	222,212	23,085
Total operating revenue	5,097,635	1,443,953	6,541,588	4,053,211
<b>Operating Expenses</b>				
Cost of water	938,821	-	938,821	-
Cost of sewage disposal	1,345,571	-	1,345,571	-
Transmission and distribution	943,482	-	943,482	-
Cost of recreation activity	-	1,184,331	1,184,331	-
Depreciation	1,196,305	556,863	1,753,168	442,494
General and administrative	1,453,218	-	1,453,218	990,701
Insurance, claims, and other	-	-	-	3,718,003
Total operating expenses	5,877,397	1,741,194	7,618,591	5,151,198
<b>Operating Loss</b>	(779,762)	(297,241)	(1,077,003)	(1,097,987)
<b>Nonoperating Revenue (Expenses)</b>				
Property taxes	1,924,270	-	1,924,270	-
Interest and other income (expenses) - Net	(880,608)	(431,791)	(1,312,399)	36,478
Customer capital charges	323,264	-	323,264	-
Loss on sale of capital assets	-	-	-	(17,792)
<b>Income (Loss) - Before contributions and transfers</b>	587,164	(729,032)	(141,868)	(1,079,301)
<b>Capital Contributions</b>	600,000	-	600,000	142,775
<b>Transfers from (to) Other Funds</b>	(50,000)	316,348	266,348	-
<b>Change in Net Assets</b>	1,137,164	(412,684)	724,480	(936,526)
<b>Net Assets - Beginning of year</b>	18,130,468	784,399	18,914,867	5,824,493
<b>Net Assets - End of year</b>	<u>\$ 19,267,632</u>	<u>\$ 371,715</u>	<u>\$ 19,639,347</u>	<u>\$ 4,887,967</u>

# City of Trenton, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	\$ 4,633,331	\$ 1,435,677	\$ 6,069,008	\$ -
Charges for services	-	-	-	4,029,056
Payments to suppliers	(2,496,558)	(598,699)	(3,095,257)	(505,980)
Claims paid	-	-	-	(2,986,104)
Payments to employees	(2,230,969)	(349,566)	(2,580,535)	(496,296)
Postretirement contributions	-	-	-	(600,000)
Other receipts	-	-	-	23,086
Net cash provided by (used in) operating activities	(94,196)	487,412	393,216	(536,238)
<b>Cash Flows from Investing Activities</b>				
Interest received on investments and other assets	29,800	-	29,800	36,478
Cash received from (paid to) General Cash Fund - Net	1,762,764	(184,756)	1,578,008	3,225,267
Net cash provided by (used in) investing activities	1,792,564	(184,756)	1,607,808	3,261,745
<b>Cash Flows from Noncapital Financing Activities -</b>				
Operating transfers (out) in - Net	(50,000)	316,348	266,348	600,000
<b>Cash Flows from Capital and Related Financing Activities</b>				
Interest paid on long-term debt - Net of capitalized interest	(910,408)	(431,791)	(1,342,199)	-
Principal payments on long-term debt	(1,269,460)	(300,000)	(1,569,460)	-
Proceeds from issuance and drawdowns of long-term debt*	4,471,905	1,800,000	6,271,905	-
Purchases of capital assets	(6,385,213)	(343,366)	(6,728,579)	(309,413)
Proceeds from sale of assets	-	-	-	49,340
Collection of capital charges and capital contributions	923,264	-	923,264	-
Property taxes	1,973,425	-	1,973,425	-
Net cash (used in) provided by capital and related financing activities	(1,196,487)	724,843	(471,644)	(260,073)
<b>Net Change in Cash and Cash Equivalents</b>	451,881	1,343,847	1,795,728	3,065,434
<b>Cash and Cash Equivalents - Beginning of year</b>	1,586,751	8,000	1,594,751	50
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 2,038,632</b>	<b>\$ 1,351,847</b>	<b>\$ 3,390,479</b>	<b>\$ 3,065,484</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>				
Cash and cash equivalents	\$ 721,021	\$ 8,000	\$ 729,021	\$ 3,065,484
Restricted cash and cash equivalents	1,317,611	1,343,847	2,661,458	-
Total	<b>\$ 2,038,632</b>	<b>\$ 1,351,847</b>	<b>\$ 3,390,479</b>	<b>\$ 3,065,484</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>				
Operating loss	\$ (779,762)	\$ (297,241)	\$ (1,077,003)	\$ (1,697,987)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation	1,196,305	556,863	1,753,168	442,494
Changes in assets and liabilities:				
Receivables	(464,304)	(8,276)	(472,580)	-
Prepaid costs and other assets	-	-	-	529,838
Inventory	42,948	(3,110)	39,838	-
Accounts payable	(91,447)	212,863	121,416	113,013
Accrued and other liabilities	2,064	26,313	28,377	76,404
Net cash provided by (used in) operating activities	<b>\$ (94,196)</b>	<b>\$ 487,412</b>	<b>\$ 393,216</b>	<b>\$ (536,238)</b>

\* The drawdowns of long-term debt relate to debt obligations initiated and recognized in the current as well as prior years.

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2004, other funds of the City purchased vehicles and equipment totaling \$142,775 and donated them to the Motor Vehicle Pool Fund. Accounts payable at June 30, 2004 of \$772,780 in the Water and Sewer Fund represents construction in progress and has been excluded from the purchases of capital assets. In total, the Water and Sewer Fund has obtained financing of approximately \$41,950,000, of which approximately \$4,472,000 and \$34,295,000 was drawn down in 2004 and in prior years, respectively. The remaining balance will be drawn down in future years.

# City of Trenton, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension and Other Employee Benefit Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 1,631,566	\$ 199,868
Investments (Note 3):		
U.S. government and agency securities	3,136,637	-
Corporate stocks	27,210,778	-
Corporate bonds	4,425,304	-
Foreign equities and equity mutual fund	2,298,802	-
U.S. agency mortgage pools	313,020	-
Bond mutual funds	2,874,027	-
Equity mutual funds	2,688,484	-
Limited partnership interest	850,023	-
Real estate (REIT) fund interest	550,714	-
Contributions receivable	92,991	-
Accrued interest	139,033	22,186
Total assets	46,211,379	<u><u>\$ 222,054</u></u>
<b>Liabilities</b>		
Accrued and other liabilities	-	\$ 144,303
Cash bonds and deposits	-	77,751
Total liabilities	-	<u><u>\$ 222,054</u></u>
<b>Net Assets</b> - Held in trust for pension and retiree health care	<u><u>\$ 46,211,379</u></u>	

# City of Trenton, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

### Additions

#### Investment income:

Interest and dividends	\$ 1,246,946
Net increase in fair value of investments	6,498,387
Less investment expenses	<u>(230,004)</u>

Net investment income 7,515,329

#### Contributions:

Employer	1,483,109
Employee	<u>226,820</u>

Total contributions 1,709,929

Total additions 9,225,258

### Deductions

Benefit payments	2,968,827
Administrative expenses	<u>26,637</u>

Total deductions 2,995,464

**Net Increase** 6,229,794

### Net Assets Held in Trust for Pension and Retiree Health Care

Beginning of year 39,981,585

End of year \$ 46,211,379

# City of Trenton, Michigan

## Component Units Statement of Net Assets (Deficit) June 30, 2004

	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
<b>Assets</b>				
Cash and investments (Note 3)	\$ 1,123,921	\$ -	\$ 25,112	\$ 1,149,033
Due from other governmental units	14,026	-	-	14,026
Restricted assets (Note 4)	598,453	-	-	598,453
Capital assets - Net (Note 5)	1,131,795	-	-	1,131,795
<b>Total assets</b>	<b>2,868,195</b>	<b>-</b>	<b>25,112</b>	<b>2,893,307</b>
<b>Liabilities</b>				
Accounts payable	4,184	-	-	4,184
Due to other governmental units	1,700	-	-	1,700
Accrued liabilities	30,000	-	-	30,000
Current liabilities payable from restricted assets (Note 4)	464,665	-	-	464,665
Noncurrent liabilities (Note 7):				
Due within one year	25,000	-	25,000	50,000
Due in more than one year	2,270,000	-	70,000	2,340,000
<b>Total liabilities</b>	<b>2,795,549</b>	<b>-</b>	<b>95,000</b>	<b>2,890,549</b>
<b>Net Assets (Deficit)</b>				
Invested in capital assets - Net of related debt	25,000	-	-	25,000
Unrestricted	47,646	-	(69,888)	(22,242)
<b>Total net assets (deficit)</b>	<b>\$ 72,646</b>	<b>\$ -</b>	<b>\$ (69,888)</b>	<b>\$ 2,758</b>

# City of Trenton, Michigan

	Expenses	Program Revenues		
		Charges for	Operating	Capital Grants
		Services	Grants and	and
			Contributions	Contributions
Downtown Development Authority:				
Special projects	\$ 707,057	\$ -	\$ -	\$ -
Interest expense	109,094	-	-	-
Economic Development Corporation -				
Special projects	612	-	-	-
Brownfield Redevelopment Authority:				
Special projects	2,044	-	-	-
Interest expense	1,305	-	-	-
Total governmental activities	<u><u>\$ 820,112</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

## General revenues:

Property taxes

Interest

Miscellaneous revenue

Total general revenues

## Change in Net Assets

**Net Assets (Deficit) - July 1, 2003**

**Net Assets (Deficit) - June 30, 2004**



**Component Units  
Statement of Activities  
Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets (Deficit)			
Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (707,057)	\$ -	\$ -	\$ (707,057)
(109,094)	-	-	(109,094)
-	(612)	-	(612)
-	-	(2,044)	(2,044)
-	-	(1,305)	(1,305)
<u>(816,151)</u>	<u>(612)</u>	<u>(3,349)</u>	<u>(820,112)</u>
557,429	-	36,242	593,671
28,347	-	339	28,686
<u>1,830</u>	<u>-</u>	<u>25,000</u>	<u>26,830</u>
587,606	-	61,581	649,187
(228,545)	(612)	58,232	(170,925)
<u>301,191</u>	<u>612</u>	<u>(128,120)</u>	<u>173,683</u>
<u><b>\$ 72,646</b></u>	<u><b>\$ -</b></u>	<u><b>\$ (69,888)</b></u>	<u><b>\$ 2,758</b></u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Trenton (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The City of Trenton Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government by blending it with the activities of the Recreation Fund because its primary purpose is to finance and construct the City's public buildings, including the Kennedy Recreation Center.

**Discretely Presented Component Units** - The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, was selected by the City Council. The Corporation was dissolved during the current fiscal year.

The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The Authority's governing body consists of the mayor and 11 individuals appointed by the mayor, subject to approval by the City Council.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The Brownfield Redevelopment Authority was created to facilitate the long-term redevelopment and remediation of environmentally contaminated sites within the City. The Authority's governing body consists of the mayor and six individuals appointed by the mayor, subject to approval by the City Council.

#### **Major Taxpayers**

Approximately 39 percent of property tax revenue is from two companies with properties in the City of Trenton, and approximately 30 percent of water, sewer, and industrial charge revenue is from two businesses located in the City.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the General Fund as a major governmental fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.
- The Recreation Fund accounts for activities of the Recreation Center.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Additionally, the City reports the following fund types:

- The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. Included in this category are the Motor Vehicle Pool Fund and the Self-insurance Fund.
- The Pension Retirement Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Other Employee Benefit Trust Fund accounts for activities and accumulates resources associated with providing postemployment benefits to retirees.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash held in trust by the Cash Fund for other funds is reported in the financial statements as being held by the individual funds.

**Investments** - Investments are stated at fair value, based on quoted market prices. Investments that do not have an established market are reported at estimated fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, approximately \$8,000 of interest expense was capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 to 30 years
Water and sewer distribution systems	50 to 66 years
Water and sewer treatment facilities	50 years
Buildings and building improvements	15 to 50 years
Machinery, equipment, and furniture	7 to 20 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation, sick, and personal pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### Note 1 - Summary of Significant Accounting Policies (Continued)

The following is a summary of the unreserved fund balances of the governmental funds with management's designations:

	<u>General Fund</u>
Designated:	
Equipment	\$ 1,000,000
Uninsured risks	1,000,000
Postretirement benefits	1,000,000
Severance pay	2,675,648
Future budget stabilization	900,000
Self-insurance benefits	600,000
Receivables	<u>676,098</u>
Total designated	7,851,746
Undesignated	<u>630,917</u>
Total unreserved	<u><u>\$ 8,482,663</u></u>

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budgetary comparison schedule (non-GAAP budgetary basis) - General Fund included in required supplemental information is presented in greater detail than the accounting used in preparing the adopted budget. The General Fund budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The adopted budget for the nonmajor Special Revenue Funds can be obtained from City Hall.



### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the City has adopted this accounting treatment. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Excess costs - Beginning of year	\$ (502,899)
Building permit revenue	285,205
Direct costs	<u>(397,908)</u>
Excess costs - End of year	<u>\$ (615,602)</u>

**Fund Deficit** - The Brownfield Redevelopment Authority component unit had a deficit at year end. The deficit will be funded primarily by property tax collections.

### Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Police and Fire Retirement System and the Retiree Health Care Trust Fund are also authorized to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles. During the year, the Police and Fire Retirement System held an investment that was not in compliance with Public Act 314 as amended. Subsequent to year end, the investment was sold, placing the Police and Fire Retirement System in compliance.

# City of Trenton, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

The City's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 15,619,875	\$ 729,021	\$ 46,179,223	\$ 62,528,119	\$ 1,149,033
Restricted assets	-	2,661,458	-	2,661,458	598,453
Total	\$ 15,619,875	\$ 3,390,479	\$ 46,179,223	\$ 65,189,577	\$ 1,747,486

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 16,020,946	\$ 1,747,486
Investments in securities, mutual funds, and similar vehicles	49,151,511	-
Petty cash or cash on hand	17,120	-
Total	\$ 65,189,577	\$ 1,747,486

The bank balance of the City's deposits is approximately \$16,855,000, of which approximately \$581,000 is covered by federal depository insurance and the remainder is uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Component Units

The cash and investments of the City's component units consist of bank deposits of approximately \$1,747,000 at June 30, 2004. The deposits are administered by the City. The federal depository insurance pertains to all of the above deposits of the City; hence, the specific coverage pertaining to the component units' deposits, if any, is not determinable.

### Note 3 - Deposits and Investments (Continued)

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004. Risk Category I includes those investments that meet any of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	I	2	3	
Pension assets:				
U.S. government and agencies securities	\$ -	\$ 3,136,637	\$ -	\$ 3,136,637
Corporate bonds	-	4,425,304	-	4,425,304
Corporate stocks	-	27,210,778	-	27,210,778
Subtotal	\$ -	\$ 34,772,719	\$ -	34,772,719
Investments not subject to categorization:				
Nonpension funds' bank investment pools				3,774,415
Pension fund assets:				
Broker investment pool				1,029,307
Foreign equities and equity mutual fund				2,298,802
Equity mutual funds				2,688,484
Bond mutual funds				2,874,027
U.S. agency mortgage pools				313,020
Real estate-based investments:				
Limited partnership interest			*	850,023
Real estate (REIT) fund interest			*	550,714
Total investments not subject to categorization				14,378,792
Total investments				\$ 49,151,511

\* The market values of the limited partnership interest and REIT fund interests are not readily determinable and the investments are recorded at estimated fair value.

### **Note 3 - Deposits and Investments (Continued)**

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. All external investment pools (U.S. agency mortgage pools, and bond and mutual funds) are registered with the SEC. The bank and broker investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

The U.S. agency mortgage pools held by the Firemen and Policemen Retirement System at June 30, 2004 were collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Included in the Retirement System's corporate bonds at June 30, 2004 were asset-backed securities of approximately \$608,000. These securities are backed by credit card or other receivables and typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer moderate credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayment of these "pay through" securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields. From time to time, the bond funds may hold collateralized mortgage obligations, asset-backed securities, or similar investments.

### **Note 4 - Restricted Assets**

Through fiscal year ended June 30, 2004, the City has obtained \$41,950,000 of General Obligation State Revolving Fund Limited Tax Bond financing for improvements to the City's sewer system pursuant to an administrative consent order by the State of Michigan (see Note 13). The proceeds of these bonds are drawn down by the City as the funds are needed. Also included in restricted assets is the amount that has not been drawn down to date.

The Grosse Ile/Trenton Utility Bond restricted assets represent unspent bond proceeds that have been restricted for construction, water and sewer line replacement, and capital asset acquisitions, including unspent proceeds earning interest, from the obligation to the Grosse Ile/Trenton Utilities Authority.

### Note 4 - Restricted Assets (Continued)

The Water and Sewer Fund capital charges represent the portion of customer billings that the City intends to use for future capital expenditures in the Water and Sewer Fund.

The Debt Service restricted asset represents excess cash collected to the extent that property tax revenue exceeds annual debt service requirements of the State Revolving Fund General Obligation Limited Tax Bonds (see Note 8).

The Downtown Development Authority restricted asset represents cash that has been restricted for construction.

A summary of primary government and component unit restricted assets and current liabilities payable from restricted assets at June 30, 2004 follows:

	Primary Government						Component Unit
	Water and Sewer Fund				Recreation Fund		
	Administrative Consent Order Construction	Grosse Ile/ Trenton Utility Bonds	Capital Charges	Debt Service	Recreation Center Improvements	Total Primary Government	
Restricted assets:							
Cash	\$ -	\$ 467,264	\$ 280,968	\$ 569,379	\$ 1,343,847	\$ 2,661,458	\$ 598,453
Accounts receivable	3,243,729	-	-	-	-	3,243,729	-
Total restricted assets	<u>\$ 3,243,729</u>	<u>\$ 467,264</u>	<u>\$ 280,968</u>	<u>\$ 569,379</u>	<u>\$ 1,343,847</u>	<u>\$ 5,905,187</u>	<u>\$ 598,453</u>
Current liabilities payable from restricted assets:							
Accounts payable	\$ 772,780	\$ -	\$ -	\$ -	\$ 15,400	\$ 788,180	\$ 464,665
Current portion of long-term debt	-	-	-	569,379	-	569,379	-
Total current liabilities payable from restricted assets	<u>\$ 772,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 569,379</u>	<u>\$ 15,400</u>	<u>\$ 1,357,559</u>	<u>\$ 464,665</u>

### Note 5 - Capital Assets

Capital asset activity of the City's governmental activities, business-type activities, and component unit was as follows:

	Balance July 1, 2003	Reclassifications and Transfers	Additions	Disposals	Balance June 30, 2004
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Construction in progress	\$ -	\$ -	\$ 242,395	\$ -	\$ 242,395
Land	1,083,387	-	-	-	1,083,387
Subtotal	1,083,387	-	242,395	-	1,325,782
Capital assets being depreciated:					
Land improvements	2,179,126	-	-	-	2,179,126
Roads and sidewalks	17,688,620	-	450,203	(248,947)	17,889,876
Buildings and improvements	7,765,375	-	12,700	(27,953)	7,750,122
Vehicles	4,569,200	-	429,072	(1,142,225)	3,856,047
Furniture and equipment	6,875,780	-	316,653	(411,611)	6,780,822
Subtotal	39,078,101	-	1,208,628	(1,830,736)	38,455,993
Less accumulated depreciation	23,824,589	-	1,228,335	(1,746,271)	23,306,653
Net capital assets being depreciated	15,253,512	-	(19,707)	(84,465)	15,149,340
Net capital assets	\$ 16,336,899	\$ -	\$ 222,688	\$ (84,465)	\$ 16,475,122
<b>Business-type activities:</b>					
Capital assets not being depreciated:					
Land	\$ 13,500	\$ -	\$ -	\$ -	\$ 13,500
Construction in progress	8,682,119	(8,747,119)	2,191,252	-	2,126,252
Subtotal	8,695,619	(8,747,119)	2,191,252	-	2,139,752
Capital assets being depreciated:					
Land improvements	1,616,184	(49,207)	-	-	1,566,977
Water and sewer distribution systems	40,970,483	8,673,542	2,789,171	-	52,433,196
Treatment facilities	11,887,343	3,802	-	-	11,891,145
Buildings and building improvements	10,041,579	56,241	3,217	-	10,101,037
Machinery and equipment	1,168,807	62,741	307,337	(40,693)	1,498,192
Subtotal	65,684,396	8,747,119	3,099,725	(40,693)	77,490,547
Less accumulated depreciation	13,641,546	-	1,753,168	(40,693)	15,354,021
Net capital assets being depreciated	52,042,850	8,747,119	1,346,557	-	62,136,526
Net capital assets	\$ 60,738,469	\$ -	\$ 3,537,809	\$ -	\$ 64,276,278

### Note 5 - Capital Assets (Continued)

Capital assets in the Downtown Development Authority component unit consisted of \$1,131,795 of construction in progress acquired during the year ended June 30, 2004.

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 396,256
Public safety	79,528
Public works	1,073
Recreation and culture	308,984
Internal Service Fund depreciation is charged to various functions based on their usage of the asset	<u>442,494</u>
Total governmental activities	<u>\$ 1,228,335</u>

Business-type activities:

Water and sewer	\$ 1,196,305
Recreation	<u>556,863</u>
Total business-type activities	<u>\$ 1,753,168</u>

### Note 6 - Interfund Transfers

The composition of interfund transfers at the fund level is as follows:

	Transfers Out			
	General Fund	Other Governmental Funds	Business-type Activities	Total
Transfers in:				
General Fund	\$ -	\$ 161,012	\$ 50,000	\$ 211,012
Other governmental funds	716,378	185,994	-	902,372
Business-type activities	316,348	-	-	316,348
Internal Service Funds	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
Total	<u>\$ 1,632,726</u>	<u>\$ 347,006</u>	<u>\$ 50,000</u>	<u>\$ 2,029,732</u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Maturing Through	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental activities:</b>							
General obligation unlimited tax bonds - Library Bonds - Amount of issue - \$4,000,000	2013	3.900% - 5.875%	\$200,000 - \$500,000	\$ 3,400,000	\$ (200,000)	\$ 3,200,000	\$ 250,000
<b>Installment purchase agreements:</b>							
District Court (see Note 12) - Amount of issue - \$340,000 (City's estimated share)	2006	4.7%	varies \$27,621 - \$29,025	211,671	(137,619)	74,052	24,841
Vehicle and computer equipment - Amount of issue - \$1,551,952, paid monthly	2005	4.969%		375,489	(346,464)	29,025	29,025
Total installment purchase agreements				587,160	(484,083)	103,077	53,866
<b>Other long-term obligations:</b>							
Compensated absences				2,469,197	206,451	2,675,648	1,141,534
Uninsured claims				400,000	-	400,000	400,000
Total other long-term obligations				2,869,197	206,451	3,075,648	1,541,534
Total governmental activities				6,856,357	(477,632)	6,378,725	1,845,400
<b>Business-type activities:</b>							
<b>General obligation bonds:</b>							
Water and Sewer Fund Contractual Obligation - Related to Grosse Ile/Trenton Utilities Authority Bonds, Series B - Amount of issue - \$1,999,850	2018	4.20% - 6.25%	\$63,825 - \$148,925	1,808,375	(74,462)	1,733,913	85,100
State Revolving Fund Limited Tax Bonds - Program 5127-01 - Amount of issue - \$12,095,000	2021	2.5%	\$485,000 - \$760,000	11,140,000	(495,000)	10,645,000	510,000
State Revolving Fund Limited Tax Bonds - Program 5127-02 - Amount of issue - \$16,535,000	2022	2.5%	\$645,000 - \$1,035,000	15,890,000	(660,000)	15,230,000	680,000
State Revolving Fund Limited Tax Bonds - Program 5127-03 - Amount of issue - \$1,005,000	2024	2.5%	\$40,000 - \$65,000	1,005,000	(40,000)	965,000	40,000
State Revolving Fund Limited Tax Bonds - Program 5127-04 - Amount of issue - \$10,325,000	2024	2.5%	\$405,000 - \$650,000	10,325,000	-	10,325,000	405,000
State Revolving Fund Limited Tax Bonds - Program 5127-05 - Amount of issue - \$1,990,000	2025	2.5%	\$80,000 - \$125,000	-	1,990,000	1,990,000	-
Building Authority Bonds - Amount of issue - \$1,800,000	2022	3.00% - 4.60%	\$75,000 - \$140,000	-	1,800,000	1,800,000	-
Building Authority Bonds - Amount of issue - \$8,000,000	2022	5.125% - 5.625%	\$100,000 - \$650,000	7,900,000	(200,000)	7,700,000	200,000
Total bond obligations				48,068,375	2,320,538	50,388,913	1,920,100



### Note 7 - Long-term Debt (Continued)

	Maturing Through	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type activities (Continued):							
General obligation bonds (Continued):							
Other long-term obligations:							
Advance from General Fund*		5.125% -					
Amount of issue - \$1,000,000	2013	5.625%	Varies	\$ 1,000,000	\$ (100,000)	\$ 900,000	\$ 100,000
Compensated absences				330,692	3,267	333,959	137,325
Total other long-term liabilities				1,330,692	(96,733)	1,233,959	237,325
Total business-type activities**				49,399,067	2,223,805	51,622,872	2,157,425
Total governmental activities and business-type activities				\$ 56,255,424	\$ 1,746,173	\$ 58,001,597	\$ 4,002,825
Component units:							
General obligation limited tax bonds - Downtown Development Authority Bonds							
Amount of issue - \$1,400,000	2023	3.8% - 5.5%	\$25,000 - \$100,000	\$ 1,400,000	\$ (25,000)	\$ 1,375,000	\$ 25,000
General obligation limited tax bonds - Downtown Development Authority Bonds							
Amount of issue - \$920,000	2024	3.8% - 5.5%	\$25,000 - \$90,000	-	920,000	920,000	-
Other long-term obligations - Brownfield Authority Advance from General Fund*							
Amount of issue - \$135,000	2008	1.45%	\$21,829 - \$23,628	113,599	(18,599)	95,000	25,000
Total component units				\$ 1,513,599	\$ 876,401	\$ 2,390,000	\$ 50,000

\* The interest rate on the advances will be reduced to the average interest rate earned by the City whenever it is lower than the stated rate. Additionally, the maturity of these obligations may be affected by the operating results of the Recreation Fund.

\*\* Business-type activities long-term debt of \$51,288,913 includes \$569,379 of current liabilities payable from restricted assets (see Note 4).

Approximately 36.5 percent of the installment purchase agreement for vehicle and computer equipment relates to the acquisition of computer equipment on behalf of the Shared Information Network Consortium (S.I.N.C.), a Special Revenue Fund. The City expects that this percentage of the debt service will be provided by S.I.N.C. The consortium, which is essentially a cost-sharing arrangement between six communities including the City, will provide computer services to its member communities' law enforcement agencies. The consortium expects to obtain its required operating revenue from funds obtained from the District Court's technology fund. Any costs not covered by the technology fund will be funded by the participating communities.

The compensated absences liability represents the estimated liability to be paid to employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the City.

### Note 7 - Long-term Debt (Continued)

The Water and Sewer Contractual Obligation represents the City's obligation to service a portion of a \$4,700,000 bond issued by the Grosse Ile - Trenton Utilities Authority representing the percentage of the total bond proceeds that was disbursed to the City for system construction projects. The City's transactions with the Authority are limited to the issuance and repayment of this obligation (see Note 12).

The Downtown Development Authority Bonds represent monies to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The City has pledged its full faith and credit in support of these obligations.

The long-term advance from the General Fund to the Recreation Fund represents monies advanced to cover a portion of the costs associated with constructing the new Kennedy Recreation Center. The advance is to be repaid, with interest, from available operating revenues of the Recreation Fund.

The long-term advance from the General Fund to the Brownfield Authority represents monies advanced to cover a portion of the costs associated with long-term redevelopment and remediation of environmentally contaminated sites within the Brownfield District. The advance is to be repaid, with interest, from property taxes captured by the Brownfield Redevelopment Authority.

Annual debt service requirements, exclusive of compensated absences and uninsured claims to maturity for the above bonds and note obligations, are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 303,866	\$ 136,889	\$ 440,755	\$ 2,020,100	\$ 1,361,026	\$ 3,381,126	\$ 50,000	\$ 103,098	\$ 153,098
2006	276,035	121,357	397,392	2,220,738	1,308,113	3,528,851	70,000	101,293	171,293
2007	323,176	106,714	429,890	2,315,738	1,249,521	3,565,259	75,000	98,950	173,950
2008	350,000	91,975	441,975	2,435,738	1,187,546	3,623,284	95,000	95,813	190,813
2009	350,000	76,488	426,488	2,507,009	1,121,525	3,628,534	75,000	91,988	166,988
2010-2014	1,700,000	139,650	1,839,650	13,723,890	4,528,790	18,252,680	470,000	407,125	877,125
2015-2019	-	-	-	15,260,700	2,426,188	17,686,888	750,000	274,100	1,024,100
2020-2024	-	-	-	10,680,000	337,136	11,017,136	805,000	86,003	891,003
2025-2028	-	-	-	125,000	-	125,000	-	-	-
Total	\$ 3,303,077	\$ 673,073	\$ 3,976,150	\$ 51,288,913	\$ 13,519,845	\$ 64,808,758	\$ 2,390,000	\$ 1,258,370	\$ 3,648,370

Total interest expense incurred by the City for the year approximated \$1,568,000, including approximately \$8,000 of interest capitalized in business-type activities.

### Note 7 - Long-term Debt (Continued)

The General Obligation Limited Tax Bonds accrue interest only on the amount drawn down to date; therefore, the annual debt service requirements for interest expense assumes the City will draw down the entire amount of the total \$41,950,000 original balance of the General Obligation Limited Tax Bonds at the beginning of the next fiscal year. The actual amount of interest and principal paid may be less.

Subsequent to June 30, 2004, the City obtained additional State Revolving Fund General Obligation Limited Tax Bonds in the amount of \$4,130,000 to fund costs associated with administrative consent order (see Note 13). The City also obtained an additional installment purchase agreement in the amount of \$375,000 to purchase computer equipment and software.

### Note 8 - Property Taxes

Property taxes for the City are comprised of the following components:

	General Fund			Special Revenue Fund		Enterprise Fund
	Firemen and Policemen Pension Plan	Solid Waste	Operating	Other Tax Collection and Trailer Park Fees	Library Operating and Library Debt	Total Governmental Activities Sewer Debt
Millage rate	1.09	1.25	15.45	-	0.85	18.64
Total	\$ 871,673	\$ 999,625	\$ 12,355,375	\$ 77,428	\$ 697,050	\$ 15,001,151
						\$ 1,924,270

The firemen and policemen pension plan, solid waste, library operating and debt service, and sewer debt mills were approved specifically for the use in funding a pension plan, providing particular services by the City, and funding certain debt service requirements. To the extent that property taxes levied for sewer debt exceeded the related debt service expenditures, the revenue has been included in restricted assets of the Water and Sewer Fund and net assets have been restricted.

### **Note 9 - Postemployment Benefits**

The City provides life insurance and health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 180 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and life insurance benefits are recognized as the insurance premiums become due. These benefits totaled approximately \$1,382,000 for the year ended June 30, 2004.

#### **Upcoming Reporting Change**

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### **Note 10 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League (risk pool) for claims relating to property loss, general liability, and workers' compensation. The City has also assumed a significant amount of financial responsibility for its actual incurred medical claims cost, subject to certain insured aggregate limitations of \$75,000 per specific claim and approximately \$2,500,000 in the aggregate.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 10 - Risk Management (Continued)

The City estimates the liability for medical and other claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are generally recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability are as follows:

	2004	2003
Estimated liability - Beginning of year	\$ 790,127	\$ 777,585
Estimated claims incurred, including charges in estimates and related administrative costs	3,140,952	2,973,237
Claim and related administrative payments	<u>(3,079,290)</u>	<u>(2,960,695)</u>
Estimated liability - End of year	<u>\$ 851,789</u>	<u>\$ 790,127</u>

A total of \$400,000 of the estimated liability has been recorded in long-term debt (see Note 7). The remaining liability represents the accrual for claims incurred but not reported and is recorded in accrued and other liabilities.

### Note 11 - Pension Plans

#### Defined Benefit Plans Descriptions

**Michigan Municipal Employees' Retirement System** - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City hired before January 1, 1996, other than firemen and policemen. The MMERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

### Note 11 - Pension Plans (Continued)

**Firemen and Policemen Retirement System** - The City contributes to the Firemen and Policemen Retirement System, which is the administrator of a single-employer public benefit pension plan that currently covers substantially all full-time fire and police employees hired before January 1, 1996. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 90 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 66 current active employees. The plan does not issue a separate financial report.

#### **Defined Benefit Contributions and Funding Status**

**Michigan Municipal Employees' Retirement System - Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of approximately 3 percent to 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Firemen and Policemen Retirement System - Contributions** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent. Administrative costs of the plan are financed through investment earnings.

### Note 11 - Pension Plans (Continued)

#### Defined Benefit Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost of \$530,173 for the MMERS plan, exclusive of \$179,488 of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, (c) additional projected salary increases of 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 2.5 percent annually, limited cumulative to increases in the Consumer Price Index. Both (a) and (b) include an inflation component of 4.5 percent.

The actuarial value of assets was determined on the basis of a valuation method that uses techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll determined using the individual attained age actuarial funding method over an open amortization period of 30 years.

For the year ended June 30, 2004, the City's annual Firemen and Policemen Retirement System's pension cost for the plan and its actual contribution, exclusive of \$226,820 of employee contributions, were equal to the City's \$883,109 required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002, using the aggregate actuarial cost method. Significant actuarial assumptions used include (a) an 8.5 percent investment rate of return per year through 2005, graded to 7.0 percent in 2015 and thereafter, (b) projected salary increases of 4.0 percent per year, (c) additional projected salary increases of .2 percent to 2.3 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 10 percent after five years, 10 percent after 10 years, and 5 percent after 15 years. Both (a) and (b) include an inflation component of 4.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is nine years at June 30, 2004.

**Reserves** - As of June 30, 2004, the Firemen and Policemen Retirement System plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 3,408,153
Reserve for retired benefit payments	24,271,052

### Note 11 - Pension Plans (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2002	2003	2004
Michigan Municipal Employees' Retirement System:			
Annual pension costs (APC)	\$ 490,043	\$ 471,761	\$ 530,173
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 27,322,614	\$ 27,303,494	\$ 28,356,684
Actuarial accrued liability (AAL)	\$ 32,777,578	\$ 33,618,861	\$ 35,988,807
Unfunded AAL (UAAL)	\$ 5,454,964	\$ 6,315,367	\$ 7,632,123
Funded ratio	83%	81%	79%
Covered payroll	\$ 4,031,446	\$ 3,783,905	\$ 3,699,558
UAAL as a percentage of covered payroll	135%	167%	206%
Firemen and Policemen Retirement System:			
Annual pension costs (APC)	\$ 741,372	\$ 695,508	\$ 883,109
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Defined Contribution Pension Plans

Full-time employees hired after January 1, 1996 (except the AFSCME Local 292, for which the effective date was July 1, 1996) do not become members of either of the two defined benefit pension plans discussed above. Rather, they participate in one of the City's two defined contribution plans: the General Employees' Money Purchase Plan ("General Employees Plan") or the City of Trenton Fire Fighters and Police Officers Money Purchase Plan ("Fire Fighters and Police Officers Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

As established by various employee competitive bargaining units, the City contributes 6 percent and 12 percent of employees' gross earnings for the General Employees' Plan and Fire Fighters and Police Officers Plan, respectively, and the employees contribute 6 percent of earnings for both plans. The City's contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service.

In accordance with these requirements, the City contributed \$87,587 and \$55,279 during the current year and the employees contributed \$87,587 and \$27,639 during the current year for the General Employees' Plan and Fire Fighters and Police Officers Plan, respectively. The plans' assets, which aggregated \$1,342,859 at June 30, 2004, are held by an independent third-party administrator.



### Note 12 - Joint Ventures

#### 33<sup>rd</sup> District Court System

The City is a member of the 33rd District Court System (the "District Court"), which provides judicial services to the City and various other surrounding communities. The City appoints one member to the joint venture's governing board, which then approves the annual budget.

During the current year, the City paid approximately \$2,000 to the District Court, representing the City's share of the District Court's net activity. Complete financial statements are available at the City offices. The District Court receives its operating revenue principally through contributions from member communities, fines, and forfeitures.

The City and various other surrounding communities have previously entered into an installment purchase agreement with a bank on behalf of the District Court.

The communities collectively agreed to finance the construction of an addition to the District Court for a total cost of \$2,000,000, with interest and principal payments on the related installment obligation payable through June 30, 2006.

The intention of the District Court is to make the monthly interest and principal payments on behalf of the communities. In the event payment of principal or interest is not received by the bank when due, each community will be responsible for its share.

For each community, the share is the percentage of the total amount of any payment due equal to a fraction, the numerator of which is the total cases handled by the District Court for that community from January 1 to December 31 of the year immediately preceding the year in which the payment is due, and the denominator of which is the total number of cases handled by the District Court for the same time period. The share for the City through June 30, 2004 is approximately 18 percent. The City's share of the future principal and interest payments for the District Court debt is estimated based on this calculated percentage. Principal and interest payments made by the District Court on the City's behalf during the year approximated \$202,000.

The District Court has set aside certain funds of the City in anticipation of its future debt requirements. The City has not recorded these amounts held by the District Court since it is not anticipated that they will be made available currently nor can they be used for purposes other than debt retirement.

### **Note 12 - Joint Ventures (Continued)**

#### **Grosse Ile-Trenton Utilities Authority**

The City is also a member of the Grosse Ile-Trenton Utilities Authority (the "Authority") joint venture. The Authority's governing body is composed of two appointees, one from each member of the joint venture. The Authority was established in order to provide an efficient means of acquiring and constructing water supply and sewage disposal systems and to extend use privileges to each other's resident where deemed appropriate by the communities.

### **Note 13 - Commitment**

The City is currently under an Administrative Consent Order (A.C.O.) by the State of Michigan to eliminate sanitary sewer overflows to the Detroit River. This is estimated to be a 10-year project to evaluate the entire system, identify the deficiencies, and to develop corrective plans for construction. At this time, it is estimated that costs of construction and rehabilitation to the system will be approximately \$47,000,000. The City has currently obtained State Revolving Fund General Obligation Limited Tax Bonds totaling \$41,950,000 to fund the costs associated with this project. See Note 7 for further details regarding these obligations. This project is currently in process, and the City has incurred approximately \$43,100,000 of related construction expenditures through June 30, 2004.

## **Required Supplemental Information**

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# City of Trenton, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 7,955,858	\$ 7,966,284	\$ 8,714,099	\$ 747,815
<b>Resources (Inflows)</b>				
Property taxes	14,498,977	14,498,977	14,304,101	(194,876)
Licenses and permits	273,200	273,200	527,268	254,068
State sources	2,369,389	2,369,389	2,319,330	(50,059)
Charges for services	527,950	527,950	655,787	127,837
Fines and forfeitures	363,500	363,500	367,232	3,732
Interest income	300,000	300,000	196,301	(103,699)
Other	640,097	640,097	703,723	63,626
Transfer from other funds	373,067	373,067	211,012	(162,055)
Total resources (inflows)	19,346,180	19,346,180	19,284,754	(61,426)
<b>Charges to Appropriations (Outflows)</b>				
General government:				
Mayor and Council	121,750	121,750	97,441	24,309
District Court	400,487	400,487	380,733	19,754
City Administrator	323,322	323,322	323,174	148
City Clerk - Elections	45,057	45,057	21,856	23,201
City Assessor	182,212	182,212	167,397	14,815
City Attorney	201,000	201,000	200,217	783
City Clerk - General	161,615	166,615	168,867	(2,252)
City Controller	250,146	273,066	275,392	(2,326)
Tax Review Board	1,962	1,962	1,210	752
City Treasurer	161,257	163,546	168,001	(4,455)
Municipal buildings/facilities	1,263,585	1,263,585	1,157,020	106,565
Planning Commission	14,200	14,200	13,418	782
Zoning Board of Appeals	1,520	1,520	1,627	(107)
Building Board of Appeals	390	390	100	290
Central office	300,637	220,637	226,098	(5,461)
Total general government	3,429,140	3,379,349	3,202,551	176,798
Public safety:				
Police department	4,347,849	4,318,849	4,423,686	(104,837)
Traffic Safety Commission	1,150	1,150	1,058	92
Fire department	3,147,342	3,068,042	3,130,328	(62,286)
Emergency	139,150	144,150	141,640	2,510
Corrections department/jail	46,500	53,500	51,594	1,906
Building inspection	383,763	388,763	397,908	(9,145)
Civil defense	19,043	19,043	10,233	8,810
Crossing guards	67,750	67,750	66,882	868
Total public safety	8,152,547	8,061,247	8,223,329	(162,082)

Note - The above General Fund charges to appropriations (outflows) - budget and actual is for additional information only, and represents greater detail than the adopted budget, except for department totals.

# City of Trenton, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Charges to Appropriations (Outflows) (Continued)</b>				
Public works:				
Department of Public Works	\$ 1,181,212	\$ 1,181,212	\$ 1,072,592	\$ 108,620
City engineer	461,369	461,369	426,265	35,104
Street lighting	601,910	601,910	584,800	17,110
Sanitation	1,022,894	1,028,815	1,080,857	(52,042)
Protection to animals	54,150	54,150	52,338	1,812
Total public works	3,321,535	3,327,456	3,216,852	110,604
Health and welfare - Environmental Control				
Commission	500	500	200	300
Culture and recreation:				
Parks department	593,304	593,304	579,307	13,997
Cultural Center	23,780	23,780	26,051	(2,271)
Historical Commission	4,500	4,500	5,164	(664)
Library Commission	500	500	270	230
Cultural Commission	4,080	4,080	3,720	360
Recreation Commission	1,550	1,550	-	1,550
Civic Commission	12,500	12,500	10,638	1,862
Beautification Commission	2,535	2,535	1,211	1,324
Total culture and recreation	642,749	642,749	626,361	16,388
Other	2,423,361	2,070,092	1,346,435	723,657
Debt service	-	238,439	227,420	11,019
Transfers to other funds	1,376,348	1,626,348	1,632,726	(6,378)
Total charges to appropriations (outflows)	19,346,180	19,346,180	18,475,874	870,306
<b>Fund Balance - End of year</b>	<b>\$ 7,955,858</b>	<b>\$ 7,966,284</b>	<b>\$ 9,522,979</b>	<b>\$ 1,556,695</b>

Note - The above General Fund charges to appropriations (outflows) - budget and actual is for additional information only, and represents greater detail than the adopted budget, except for department totals.

# City of Trenton, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress\* June 30, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<b><u>Firemen and Policemen Retirement System</u></b>						
6/30/98	\$ 37,852,508	\$ 37,621,461	\$ (231,047)	101%	\$ 4,244,194	-5%
6/30/99 (1)	41,705,805	41,705,805	-	100%	4,249,463	0%
6/30/00 (2)	44,798,847	44,798,847	-	100%	4,656,993	0%
6/30/01	46,679,422	46,679,422	-	100%	4,606,237	0%
6/30/02	46,492,395	46,492,395	-	100%	4,521,806	0%
6/30/03	45,598,928	45,598,928	-	100%	4,364,481	0%

(1) Change to aggregate funding method

(2) Revised actuarial assumptions or methods

\* Required by Governmental Accounting Standards Board Statement No. 25

# City of Trenton, Michigan

## Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2004

### Firemen and Policemen Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
06/30/99	06/30/97	\$ 1,018,776	100
06/30/00	06/30/98	857,580	100
06/30/01	06/30/99	640,555	100
06/30/02	06/30/00	741,372	100
06/30/03	06/30/01	695,508	100
06/30/04	06/30/02	883,109	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date for the Firemen and Policemen Retirement System, is as follows:

### Firemen and Policemen Retirement System

Actuarial cost method	Aggregate actuarial cost method
Amortization method	Level over future working lifetime
Remaining amortization period	9 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.5% through 2005, graded to 7% at 13 years and thereafter
Projected salary increases*	4.2% - 6.3%
*Includes inflation at	4.0%
Postretirement benefit increases	10% after 5 years, 10% after 10 years, and 5% after 15 years

## **Other Supplemental Information**

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# City of Trenton, Michigan

	Special Revenue					
	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Cable T.V.	Special Projects
<b>Assets</b>						
Cash and investments (overdraft)	\$ 1,024,785	\$ 1,095	\$ 15,073	\$ 1,099,823	\$ -	\$ 495,595
Receivables	126,376	54,558	4,102	-	-	-
Total assets	<u><u>\$ 1,151,161</u></u>	<u><u>\$ 55,653</u></u>	<u><u>\$ 19,175</u></u>	<u><u>\$ 1,099,823</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 495,595</u></u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 2,938	\$ 9,120	\$ 327	\$ -	\$ -	\$ 17,942
Accrued and other liabilities	3,436	6,336	-	-	-	-
Total liabilities	6,374	15,456	327	-	-	17,942
<b>Fund Balances - Unreserved and undesignated</b>	<u>1,144,787</u>	<u>40,197</u>	<u>18,848</u>	<u>1,099,823</u>	<u>-</u>	<u>477,653</u>
Total liabilities and fund balances	<u><u>\$ 1,151,161</u></u>	<u><u>\$ 55,653</u></u>	<u><u>\$ 19,175</u></u>	<u><u>\$ 1,099,823</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 495,595</u></u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

Funds

				Capital	Total Nonmajor
Grant	Library	S.I.N.C.	S.M.I.L.E.S.	Projects Fund	Governmental Funds
\$ 23,892	\$ 205,960	\$ (11,479)	\$ -	\$ 1,677,133	\$ 4,531,877
38,368	21,854	33,992	-	-	279,250
<b>\$ 62,260</b>	<b>\$ 227,814</b>	<b>\$ 22,513</b>	<b>\$ -</b>	<b>\$ 1,677,133</b>	<b>\$ 4,811,127</b>
\$ 10,944	\$ 34,764	\$ 2,561	\$ -	\$ -	\$ 78,596
-	856	-	-	-	10,628
10,944	35,620	2,561	-	-	89,224
51,316	192,194	19,952	-	1,677,133	4,721,903
<b>\$ 62,260</b>	<b>\$ 227,814</b>	<b>\$ 22,513</b>	<b>\$ -</b>	<b>\$ 1,677,133</b>	<b>\$ 4,811,127</b>

# City of Trenton, Michigan

	Special Revenue					
	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Cable T.V.	Special Projects
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	246,001	-	-	-
State sources	743,976	321,018	-	-	-	-
Interest income	10,620	-	-	11,411	-	-
Other	45,584	30,000	20,428	-	-	292,305
Total revenue	800,180	351,018	266,429	11,411	-	292,305
<b>Expenditures</b>						
Current:						
Public works department	623,820	566,872	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Special projects	-	-	278,086	-	-	222,899
Other	-	-	-	218,273	-	-
Debt service	-	652	-	-	-	-
Total expenditures	623,820	567,524	278,086	218,273	-	222,899
<b>Excess of Revenue Over (Under) Expenditures</b>	176,360	(216,506)	(11,657)	(206,862)	-	69,406
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	185,994	-	250,000	-	-
Transfers out	(185,994)	-	-	-	(161,012)	-
Total other financing sources (uses)	(185,994)	185,994	-	250,000	(161,012)	-
<b>Net Change in Fund Balances (Deficit)</b>	(9,634)	(30,512)	(11,657)	43,138	(161,012)	69,406
<b>Fund Balances (Deficit) - Beginning of year</b>	1,154,421	70,709	30,505	1,056,685	161,012	408,247
<b>Fund Balances - End of year</b>	<u>\$ 1,144,787</u>	<u>\$ 40,197</u>	<u>\$ 18,848</u>	<u>\$ 1,099,823</u>	<u>\$ -</u>	<u>\$ 477,653</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances (Deficit) - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

Funds					Total Nonmajor Governmental Funds
Grant	Library	S.I.N.C.	S.M.I.L.E.S.	Capital Projects Fund	
\$ -	\$ 697,050	\$ -	\$ -	\$ -	\$ 697,050
10,496	-	-	-	-	256,497
54,867	-	-	-	-	1,119,861
-	2,935	-	-	-	24,966
8,872	77,197	191,921	-	7,189	673,496
74,235	777,182	191,921	-	7,189	2,771,870
-	-	-	-	-	1,190,692
-	367,837	-	-	-	367,837
46,260	-	48,131	-	4,793	600,169
-	-	-	-	-	218,273
-	347,038	128,001	-	-	475,691
46,260	714,875	176,132	-	4,793	2,852,662
27,975	62,307	15,789	-	2,396	(80,792)
-	-	-	6,378	460,000	902,372
-	-	-	-	-	(347,006)
-	-	-	6,378	460,000	555,366
27,975	62,307	15,789	6,378	462,396	474,574
23,341	129,887	4,163	(6,378)	1,214,737	4,247,329
<u>\$ 51,316</u>	<u>\$ 192,194</u>	<u>\$ 19,952</u>	<u>\$ -</u>	<u>\$ 1,677,133</u>	<u>\$ 4,721,903</u>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2004

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 461,614	\$ 2,603,870	\$ 3,065,484
Prepaid costs and other assets	1,070	72,046	73,116
Inventories	84,003	-	84,003
Total current assets	546,687	2,675,916	3,222,603
Noncurrent assets - Capital assets	2,514,276	-	2,514,276
Total assets	3,060,963	2,675,916	5,736,879
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	25,342	279,833	305,175
Accrued liabilities	10,253	451,255	461,508
Current portion of compensated absences	36,870	-	36,870
Total current liabilities	72,465	731,088	803,553
Noncurrent liabilities - Provision for compensated absences	45,359	-	45,359
Total liabilities	117,824	731,088	848,912
<b>Net Assets</b>			
Invested in capital assets	2,514,276	-	2,514,276
Unrestricted	428,863	1,944,828	2,373,691
Total net assets	<u>\$ 2,943,139</u>	<u>\$ 1,944,828</u>	<u>\$ 4,887,967</u>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2004

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
<b>Operating Revenue</b>			
Charges for services	\$ 1,008,174	\$ 3,021,952	\$ 4,030,126
Other	-	23,085	23,085
	<u>1,008,174</u>	<u>3,045,037</u>	<u>4,053,211</u>
<b>Operating Expenses</b>			
Insurance, claims, and other	-	3,718,003	3,718,003
Postretirement contribution	-	600,000	600,000
General and administrative expenses	990,701	-	990,701
Depreciation	442,494	-	442,494
	<u>1,433,195</u>	<u>4,318,003</u>	<u>5,751,198</u>
<b>Operating Loss</b>	(425,021)	(1,272,966)	(1,697,987)
<b>Nonoperating Income (Expense)</b>			
Net interest income	6,100	30,378	36,478
Loss on sale of capital assets	(17,792)	-	(17,792)
	<u>(11,692)</u>	<u>30,378</u>	<u>18,686</u>
<b>Loss - Before contributions and transfers</b>	(436,713)	(1,242,588)	(1,679,301)
<b>Capital Contributions</b>	142,775	-	142,775
<b>Transfers from Other Funds</b>	-	600,000	600,000
<b>Net Loss</b>	(293,938)	(642,588)	(936,526)
<b>Net Assets - Beginning of year</b>	3,237,077	2,587,416	5,824,493
<b>Net Assets - End of year</b>	<u>\$ 2,943,139</u>	<u>\$ 1,944,828</u>	<u>\$ 4,887,967</u>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2004

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
<b>Cash Flows from Operating Activities</b>			
Charges for services	\$ 1,007,104	\$ 3,021,952	\$ 4,029,056
Payments to suppliers	(505,980)	-	(505,980)
Claims paid	-	(2,986,104)	(2,986,104)
Payments to employees	(496,296)	-	(496,296)
Postretirement contributions	-	(600,000)	(600,000)
Other receipts	-	23,086	23,086
Net cash provided by (used in) operating activities	4,828	(541,066)	(536,238)
<b>Cash Flows from Investing Activities</b>			
Interest received on investments and other assets	6,100	30,378	36,478
Cash received from General Cash Fund	710,709	2,514,558	3,225,267
Net cash provided by investing activities	716,809	2,544,936	3,261,745
<b>Cash Flows from Noncapital Financing Activities - Operating transfers in</b>	-	600,000	600,000
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	(309,413)	-	(309,413)
Proceeds from sale of assets	49,340	-	49,340
Net cash used in capital and related financing activities	(260,073)	-	(260,073)
<b>Net Change in Cash and Cash Equivalents</b>	461,564	2,603,870	3,065,434
<b>Cash and Cash Equivalents - July 1, 2003</b>	50	-	50
<b>Cash and Cash Equivalents - June 30, 2004</b>	<b>\$ 461,614</b>	<b>\$ 2,603,870</b>	<b>\$ 3,065,484</b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>			
Operating loss	\$ (425,021)	\$ (1,272,966)	\$ (1,697,987)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	442,494	-	442,494
Changes in assets and liabilities:			
Prepaid costs and other assets	(1,070)	530,908	529,838
Accounts payable	(26,851)	139,864	113,013
Accrued and other liabilities	15,276	61,128	76,404
Net cash provided by (used in) operating activities	<b>\$ 4,828</b>	<b>\$ (541,066)</b>	<b>\$ (536,238)</b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2004, other funds of the City purchased vehicles and equipment totaling \$142,775 and donated them to the Motor Vehicle Pool Fund.

# City of Trenton, Michigan

	Trust Funds		
	Police and Fire		
	Retirement	Retiree Health	
	System	Care	Total Trust Funds
<b>Assets</b>			
Cash and investments	\$ 45,377,096	\$ 602,259	\$ 45,979,355
Receivables	232,024	-	232,024
Due from other funds	-	-	-
Total assets	<u>\$ 45,609,120</u>	<u>\$ 602,259</u>	<u>\$ 46,211,379</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accrued and other liabilities	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to component units	-	-	-
Cash bonds and deposits	-	-	-
Total liabilities	-	-	-
<b>Fund Balances</b> - Held in trust for pension and other employee benefits	<u>45,609,120</u>	<u>602,259</u>	<u>46,211,379</u>
Total liabilities and fund balances	<u>\$ 45,609,120</u>	<u>\$ 602,259</u>	<u>\$ 46,211,379</u>



**Other Supplemental Information  
Combining Balance Sheet  
Fiduciary Funds  
June 30, 2004**

Agency Funds					
General Cash Fund	Escrow Fund	Wayne County and School Tax Fund	Subtotal	Eliminations	Total Agency Funds
\$ 21,599,597	\$ 77,751	\$ -	\$ 21,677,348	\$ (21,477,480)	\$ 199,868
22,186	-	-	22,186	-	22,186
1,281,921	-	-	1,281,921	(1,281,921)	-
<b>\$ 22,903,704</b>	<b>\$ 77,751</b>	<b>\$ -</b>	<b>\$ 22,981,455</b>	<b>\$ (22,759,401)</b>	<b>\$ 222,054</b>
\$ 144,303	\$ -	\$ -	\$ 144,303	\$ -	\$ 144,303
21,011,915	-	-	21,011,915	(21,011,915)	-
1,747,486	-	-	1,747,486	(1,747,486)	-
-	77,751	-	77,751	-	77,751
22,903,704	77,751	-	22,981,455	(22,759,401)	222,054
-	-	-	-	-	-
<b>\$ 22,903,704</b>	<b>\$ 77,751</b>	<b>\$ -</b>	<b>\$ 22,981,455</b>	<b>\$ (22,759,401)</b>	<b>\$ 222,054</b>

# City of Trenton, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds June 30, 2004

	Pension Trust Fund	Retiree Health Care Trust Fund	Total
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 1,244,687	\$ 2,259	\$ 1,246,946
Net increase in fair value of investments	6,498,387	-	6,498,387
Less investment expenses	(230,004)	-	(230,004)
Net investment income	7,513,070	2,259	7,515,329
Contributions:			
Employer	883,109	600,000	1,483,109
Employee	226,820	-	226,820
Total contributions	1,109,929	600,000	1,709,929
Total additions	8,622,999	602,259	9,225,258
<b>Deductions</b>			
Benefit payments	2,968,827	-	2,968,827
Administrative expenses	26,637	-	26,637
Total deductions	2,995,464	-	2,995,464
<b>Net Increase</b>	5,627,535	602,259	6,229,794
<b>Net Assets Held in Trust for Pension and Retiree Health Care</b>			
Beginning of year	39,981,585	-	39,981,585
End of year	<u>\$ 45,609,120</u>	<u>\$ 602,259</u>	<u>\$ 46,211,379</u>

# **City of Trenton, Michigan**

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## **Federal Awards Supplemental Information June 30, 2004**

# City of Trenton, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Trenton, Michigan

We have audited the basic financial statements of the City of Trenton, Michigan for the year ended June 30, 2004 and have issued our report thereon dated October 15, 2004. Those basic financial statements are the responsibility of the management of the City of Trenton, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Trenton, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 15, 2004

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Basic Financial Statements

To the Honorable Mayor and  
Members of the City Council  
City of Trenton, Michigan

We have audited the financial statements of the City of Trenton, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Trenton, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Trenton, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Honorable Mayor and  
Members of the City Council  
City of Trenton, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 15, 2004

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Major Federal Awards

To the Honorable Mayor and  
Members of the City Council  
City of Trenton, Michigan

**Compliance**

We have audited the compliance of the City of Trenton, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The major federal program of the City of Trenton, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Trenton, Michigan's management. Our responsibility is to express an opinion on the City of Trenton, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Trenton, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Trenton, Michigan's compliance with those requirements.

In our opinion, the City of Trenton, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.



To the Honorable Mayor and  
Members of the City Council  
City of Trenton, Michigan

### **Internal Control Over Compliance**

The management of the City of Trenton, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Trenton, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 15, 2004

# City of Trenton, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant	Award Amount	Federal Expenditures
		Number		
U.S. Department of Housing and Urban Development - Passed through Wayne County, Michigan - Community Development Block Grants:	14.218			
Program year 2002 - Streetend Parks		02-29-03K	\$ 129,000	\$ 129,000
Program year 2003 - Streetend Parks		03-29-03K	87,000	113,395
Program year 2003 - House Rehabilitation		03-29-05A	30,000	<u>35,691</u>
Total U.S. Department of Housing and Urban Development				278,086
U.S. Department of Justice - Bureau of Justice Assistance Grant - Bulletproof Vest Partnership	16.607	N/A	26,555	11,213
Department of Homeland Security:				
Federal Emergency Management Agency				
Passed through the Michigan State Police, Emergency Management Division - 2003 State Domestic Preparedness Equipment Support Program	97.004	N/A	77,724	77,724
Public Assistance Grants	97.036	N/A	10,496	10,496
State and Local All Hazards Emergency Operations Planning	97.051	N/A	9,750	<u>9,750</u>
Total Department of Homeland Security				97,970
U.S. Environmental Protection Agency - Passed through the Michigan Department of Environmental Quality - Capitalization Grants for Clean Water State Revolving Funds:	66.458			
Project number 5127-02		5127-02	16,535,000	29,756
Project number 5127-04		5127-04	10,325,000	906,681
Project number 5127-05		5127-05	1,990,000	<u>257,431</u>
Total U.S. Environmental Protection Agency				<u>1,193,868</u> *
Total federal awards				<u><b>\$ 1,581,137</b></u>

\* Amount is included in long-term debt in the basic financial statements.

# City of Trenton, Michigan

## **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004**

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 256,497
Federal revenue not reported as such in the financial statements:	
Capitalization grant proceeds for State Revolving Fund*	1,193,868 *
Community Development Block Grants	32,085
2003 State Domestic Preparedness Equipment Support Program	77,724
Bulletproof Vest Partnership	11,213
State and Local All Hazards Emergency Operations Planning	<u>9,750</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 1,581,137</b></u>

\* Amount is included in long-term debt in the basic financial statements.

# City of Trenton, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Trenton, Michigan and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements prepared in accordance with generally accepted accounting principles.

### Note 2 - Loans Outstanding

The City had the following loan balances outstanding at June 30, 2004. Where required by OMB Circular A-133, these recorded loan balances outstanding are also included in the federal expenditures presented in the schedule.

Cluster/Program Title	CFDA Number	Prior Year	
		Amount Outstanding	Amount Outstanding
Capitalization Grants for State Revolving Funds:	66.458		
Project number 5127-01		\$ 11,140,000	\$ 10,645,000
Project number 5127-02		15,890,000	15,230,000
Project number 5127-03		1,005,000	965,000
Project number 5127-04		10,325,000	10,325,000
Project number 5127-05		-	1,990,000
Total		<u>\$ 38,360,000</u>	<u>\$ 39,155,000</u>

# City of Trenton, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2004

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major program(s):

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

# **City of Trenton, Michigan**

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## **Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None

October 15, 2004

Honorable Mayor and Members  
of the City Council  
City of Trenton  
2800 Third Street  
Trenton, MI 48183

Dear Council Members:

We recently completed the audit of the financial statements of the City of Trenton for the year ended June 30, 2004. In addition to the audit report, we offer the following comments for your consideration.

### STATE FUNDING OVERVIEW

State shared revenue accounts for approximately 12 percent of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration might introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue, as this line item in the State's budget remains vulnerable.

Honorable Mayor and Members of the City Council  
City of Trenton

October 15, 2004

## STATE FUNDING OVERVIEW (CONTINUED)

The table below details state shared revenue for the City over a five year period (based on the State's fiscal year) broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced (and estimated) by the City compared to the State's fiscal year 2001.

	Actual <u>FY 2001</u>	Actual <u>FY 2002</u>	Actual <u>FY 2003</u>	Estimated <u>FY 2004</u>	Estimated <u>FY 2005</u>
Constitutional	\$ 1,270,848	\$ 1,283,793	\$ 1,305,528	\$ 1,291,348	\$ 1,346,440
Statutory	1,867,545	1,468,828	1,243,590	999,679	944,587
Total payments	<u>\$ 3,138,393</u>	<u>\$ 2,752,621</u>	<u>\$ 2,549,118</u>	<u>\$ 2,291,027</u>	<u>\$ 2,291,027</u>
Dollar change		\$ (385,772)	\$ (203,503)	\$ (258,091)	\$ -
Percentage change		-12.29%	-7.39%	-10.12%	0.00%

We will continue to update the City as developments occur.

## TRANSPORTATION MATTERS

The Legislature recently approved HB 5319 which would earmark one-half of one cent of the state gasoline tax for the preservation, improvement or reconstruction of existing bridges. It is estimated that, over the next 10 years, approximately a half billion dollars will be available to local governments for bridge needs. Presently, these monies are used primarily by the Michigan Department of Transportation for State bridges. The legislation creates a Local Bridge Authority to manage the monies as well as seven five-member regional bridge councils. The new Authority would consist of six voting members appointed by the State Transportation Commission (three nominations by the County Road Association of Michigan and three by the Michigan Municipal League) and two non-voting members nominated by the Department of Transportation.

Also, HB 4358 has been introduced, which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.

## PROPERTY TAX MATTERS

During the current legislative session, there have been a number of bills involving property taxes that impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.



Honorable Mayor and Members of the City Council  
City of Trenton

October 15, 2004

## **PROPERTY TAX MATTERS (CONTINUED)**

- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the City of Troy.
- HB 4649 was passed by the House and would allow local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.
- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination; require examiners to be employees of a local government; and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.

## **PERSONAL PROPERTY TAX**

With the adoption several years ago by the State Tax Commission of new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments), many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities. The City is currently using the updated personal property tax tables. However, collections from previous years are based upon the previous tables and may be the subject of future refund claims. The City has earmarked approximately \$400,000 for these claims. We encourage the City to continue to monitor these developments as it could be negatively impacted by the outcome.

Honorable Mayor and Members of the City Council  
City of Trenton

October 15, 2004

### PROPERTY ASSESSMENT CAP

Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 19.026 mills even though City Charter would allow the City to levy 20.00 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

Honorable Mayor and Members of the City Council  
City of Trenton

October 15, 2004

## **HEALTH CARE COSTS**

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

## **RETIREE HEALTH CARE COSTS**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize (record) the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2009.

## **MUNICIPAL FINANCE ACT REVISIONS – REMINDER**

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (June 30, 2004) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

## **REMOTE LOCATIONS – KENNEDY RECREATION CENTER**

During the audit engagement, we visited the Kennedy Recreation Center and noticed significant opportunities to improve the internal control structure. Our observations have been shared with City administration. We suggest reviewing the existing controls and policies employed at the Center and implement our recommendations, if deemed practicable, as soon as possible. Controls in place at City Hall regarding collection and remittance of cash also should be utilized at the Kennedy Recreation Center. Periodic internal audit procedures by the controller's office should also be utilized to bolster the control environment at the Center.

Honorable Mayor and Members of the City Council  
City of Trenton

October 15, 2004

We would like to thank you and your staff again this year for their cooperation and assistance provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

**PLANTE & MORAN, PLLC**

A handwritten signature in black ink, appearing to read "Mark Chmielewski".

Mark E. Chmielewski

A handwritten signature in black ink, appearing to read "Shane C. Ferguson".

Shane C. Ferguson